


MICC INVESTMENTS LIMITED

1974 ANNUAL REPORT







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MICC INVESTMENTS LIMITED

401 BAY STREET

TORONTO, ONTARIO

## BOARD OF DIRECTORS OF MICC INVESTMENTS LIMITED AND THE MORTGAGE INSURANCE COMPANY OF CANADA

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Honorary Chairman  
The Bank of Nova Scotia  
Toronto, Ontario

R. C. BROWN  
Partner  
Blake, Cassels & Graydon  
Toronto, Ontario

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President  
Domtar Construction Materials Ltd.  
Montreal, Quebec

HAROLD CORRIGAN  
President  
Alcan Canada Products Limited  
Toronto, Ontario

S. E. EAGLES  
President  
Marathon Realty Company Limited  
Toronto, Ontario

GARDNER ENGLISH  
President  
MICC Investments Limited  
Toronto, Ontario

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Executive Assistant to the President  
The Bank of Nova Scotia  
Toronto, Ontario

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President  
MGIC Investment Corporation  
Milwaukee, Wisconsin, USA

PETER KILBURN  
Chairman  
Greenshields Incorporated  
Montreal, Quebec

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Deputy Chairman and  
Chief Executive Officer  
Bank of Montreal  
Montreal, Quebec

REGINALD T. RYAN  
Executive Vice-President  
MICC Investments Limited  
Toronto, Ontario

R. T. SCURFIELD  
President  
Nu-West Development Corporation  
Calgary, Alberta

H. N. SEATH  
Treasurer  
Air Canada  
Montreal, Quebec

G. D. SUTTON  
President  
Canadian Enterprise Development  
Corporation Limited  
Montreal, Quebec

J. L. TOOLE  
Chairman, CN Investment Division  
Canadian National Railways  
Montreal, Quebec

C. L. TOWNEND  
Assistant General Manager  
The Toronto-Dominion Bank  
Toronto, Ontario

G. J. van den BERG  
Company Director  
141 Hampshire Crescent  
Beaconsfield, Quebec

B. G. WILLIS  
Senior Vice President  
Greenshields Incorporated  
Toronto, Ontario

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## EXECUTIVE OFFICERS

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### MICC INVESTMENTS LIMITED

*President*  
GARDNER ENGLISH

*Executive Vice-President*  
REGINALD T. RYAN

*Vice-President*  
C. W. JAMESON

*Secretary-Treasurer*  
DAVID C. TOMS

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### THE MORTGAGE INSURANCE COMPANY OF CANADA

*Chairman and  
Chief Executive Officer*  
GARDNER ENGLISH

*Vice-President*  
C. W. JAMESON

*Secretary-Treasurer*  
DAVID C. TOMS

*President*  
REGINALD T. RYAN

*Vice-President*  
JAMES McAVOY

*Assistant Vice-President*  
GEORGES W. CARPENTIER

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## MICC INVESTMENTS LIMITED

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### PRESIDENT'S MESSAGE

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The year 1974 was one of continued growth and progress for the company and its subsidiary, The Mortgage Insurance Company of Canada. Profits from operations, before investment loss, increased to \$6,291,316 or \$1.24 per share compared to 93¢ per share in 1973. The new corporate surtax reduced earnings by 3¢ per share. New business of The Mortgage Insurance Company of Canada, represented by gross commitments issued for new Canadian mortgage insurance, amounted to \$1,960,000,000 compared to \$2,197,000,000 the previous year. Net premiums written during the year totalled \$19,515,633. At the year end, consolidated assets stood at \$88,836,756. Details of operations of The Mortgage Insurance Company of Canada are set out in the report of its president, Mr. R. T. Ryan, in later pages of this report.

Growth in the insurance business of our subsidiary required the raising of additional capital during the year. A rights offering to shareholders was made in July, which was successfully subscribed. New capital funds were provided in the amount of \$10,982,000 after expenses of the issue. At December 31, the capital account of the company stood at \$43,175,428. The number of shares outstanding at year end was 5,711,080. Dividends were paid during the year on the capital stock of the company in the amount of 20¢ per share.

The year under review was marked by weakness in security prices attributable to inflation and heavy government deficits around the world. As a consequence, the investment portfolio at year end showed an unrealized loss on securities of approximately 8% of portfolio. Since the portfolio is composed of high grade securities, the deficit in book value is reasonable in the current market climate. Treasury bills and other short term securities and Canadian and U.S. federal government bonds represented 38% of total portfolio compared with 31% one year ago. These investments provide a more than adequate element of liquidity. The favourable tax treatment of dividend income resulted in a tax rate of 37.5% calculated on total taxable income before realized investment losses.



In mid-February 1975, the federal Superintendent of Insurance advised The Mortgage Insurance Company of Canada that he was making amendments to the capital and reserve requirements for private mortgage insurance companies under his jurisdiction. Mortgage insurance companies are required to maintain prescribed capital and reserve funds which are related to the amount of mortgage insurance in force from time to time. Under previously existing regulations, The Mortgage Insurance Company of Canada maintained capital and insurance reserves throughout the life of all policies issued by the company. This pre-existing formula provided that capital be maintained on a declining



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basis during the first 14 years of a policy term with premium and policy reserve providing the sole support for the balance of the policy term. From the commencement of operations in 1964 until late in 1973, virtually all of the company's policies were written with a 15-year term. Since the end of 1973, more than 90% of the company's business has been written on a 20-year policy term basis.

Under the new formula, capital would be required to be maintained only during the first nine years of the policy, but at a higher level than under the previous formula. Reserves will be maintained at current levels for the first nine years, but reduced substantially starting in the tenth year. As the effect of these changes is to require additional capital during the first nine years of a policy term over that required under the present formula, earnings per share will be reduced from those that would have been obtained had the existing formula been continued. This reduction is mitigated to a degree by investment earnings available from the additional capital. By reason of the new formula, earnings per share will tend to increase after the tenth policy year.

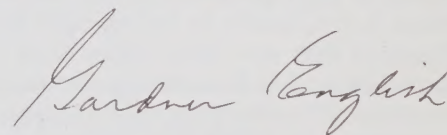
Since capital required is dependent on volume of new insurance written from year to year, it is difficult to judge the overall effect of the new capital requirements on earnings per share. An important fact in connection with the new regulations is that no changes are being made to the capital and reserve requirements on business written prior to the end of 1974. As the company does not anticipate having to raise additional capital prior to the end of the current year, there will be no effect on earnings for 1975.

The year 1974 was one of contradictory influences for business and governments around the world. Unabated inflation continued to plague all countries and was accompanied by concern for diminishing natural resources. Interest rates in most countries rose to record levels with serious consequences for governments, business and the private citizen. While the cost of borrowed money declined moder-

ately in the last quarter of the year, there seems to be little convincing evidence that government spending in all of the western world will be decreased to the degree that would indicate that inflation has been brought under control. Canada has fared better than most countries in the face of these troubling conditions. While our governments at all levels have continued deficit financing, profits in a number of industries have held up well and unemployment, while increasing, is less acute in Canada than in many other parts of the world.

The mortgage and real estate industries have been adversely affected since mid-1974 by high interest rates and rapidly increasing building costs. Planning by builders has been hampered by difficulties in getting subdivision and zoning approvals from municipalities for both single family dwellings and apartments. Combined with lower consumer demand, these influences contributed to a drop in housing starts from 268,000 to 222,000. While production in 1975 will be at lower levels than the record set in 1973, it appears that the production this year should be of the order of 200,000 units. Real estate turnover, which influences mortgage loan demand, should likewise maintain current levels. Your management believes that 1975 should be a productive year for the company.

MICC holds a 50% interest in Charlotte Properties Limited, a land development company which owns, and is developing, a recreation land tract at Dickey Lake, Hastings County, Ontario. Land sales were satisfactory and further work was completed on roads and services. Profit of Charlotte amounted to \$61,300 for fiscal 1974, and it is expected that satisfactory results will be achieved in 1975.



Gardner English  
President

February 1975

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## MICC INVESTMENTS LIMITED

### HIGHLIGHTS FOR THE YEAR

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	1974	1973
	\$	\$
NET EARNINGS . . . . . (before realized investment gain or loss)	6,291,316	3,626,972
NET EARNINGS . . . . .	5,695,089	3,369,768
TOTAL ASSETS . . . . .	88,836,756	65,827,358
SHAREHOLDERS' EQUITY . . . . .	43,175,428	32,407,316
INVESTMENT INCOME . . . . .	5,758,533	3,101,839
UNDERWRITING REVENUE . . . . .	<u>7,672,955</u>	<u>6,163,735</u>
EARNINGS PER SHARE . . . . . (before realized investment gain or loss)	\$1.24	93¢
EARNINGS PER SHARE . . . . .	\$1.13	86¢
DIVIDENDS PAID . . . . .	20¢	11.5¢

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# MICC INVESTMENTS LIMITED

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1974

ASSETS	1974 \$	1973 \$
CASH AND ACCOUNTS RECEIVABLE		
Cash . . . . .	532,357	411,083
Interest accrued and sundry receivables . . . . .	404,775	508,770
Premiums receivable . . . . .	400,000	1,020,000
	<u>1,337,132</u>	<u>1,939,853</u>
INVESTMENTS		
Treasury bills and other short-term securities — at cost . . . . .	14,825,000	10,638,380
Bonds and debentures — at amortized value (market value \$32,636,007; 1973 — \$23,748,002) (notes 2 and 3) . . . . .	34,353,738	25,082,281
Preferred stocks — at market value (cost \$31,895,134; 1973 \$20,914,240) . . . . .	27,131,651	20,135,165
Common stocks — at market value (cost \$10,232,034; 1973 \$6,956,616) . . . . .	9,211,266	6,819,248
Mortgages — at cost . . . . .	790,158	455,345
Real estate . . . . .	400,000	20,700
Corporate joint venture (note 4) . . . . .	291,220	260,570
	<u>87,003,033</u>	<u>63,411,689</u>
OTHER ASSETS		
Loan to trustees under employee stock purchase plan . . . . .	335,867	351,486
Other . . . . .	160,724	124,330
	<u>496,591</u>	<u>475,816</u>
Signed on behalf of the Board		
GARDNER ENGLISH, Director		
G. D. SUTTON, Director	<u>88,836,756</u>	<u>65,827,358</u>



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	LIABILITIES	1974	1973
		\$	\$
ACCOUNTS PAYABLE			
Due to other insurance companies . . . . .		311,232	100,608
Provision for claims . . . . .		198,399	95,167
Accounts payable and accrued liabilities . . . . .		198,277	177,063
Premium taxes payable . . . . .		367,801	359,808
Income taxes payable . . . . .		99,060	1,760,860
Due on undelivered securities . . . . .		71,251	56,902
		<u>1,246,020</u>	<u>2,550,408</u>
DEFERRED REVENUE (note 5) . . . . .		42,661,225	29,721,051
DEFERRED INCOME TAXES . . . . .		1,754,083	1,148,583
		<u>45,661,328</u>	<u>33,420,042</u>

## SHAREHOLDERS' EQUITY

### CAPITAL STOCK (note 6)

Authorized —

10,000,000 common shares without par value

Issued and fully paid —

5,711,080 common shares (1973 — 4,594,752) . . . . . 37,430,189 26,266,909

RETAINED EARNINGS (note 7) . . . . . 11,529,490 7,056,850  
48,959,679 33,323,759

UNREALIZED LOSS ON STOCKS . . . . . (5,784,251) (916,443)  
43,175,428 32,407,316

88,836,756 65,827,358

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# MICC INVESTMENTS LIMITED

## CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974 \$	1973 \$
REVENUE (note 2)		
Net premiums written . . . . .	19,515,633	20,563,068
Application fees . . . . .	1,331,462	1,521,980
Commission income . . . . .	15,043	16,458
	<u>20,862,138</u>	<u>22,101,506</u>
Less: Increase in deferred revenue . . . . .	13,189,183	15,937,771
	<u>7,672,955</u>	<u>6,163,735</u>
Investment income —		
Interest and amortization (note 3) . . . . .	3,088,224	2,580,640
Dividends . . . . .	2,639,659	505,805
Corporate joint venture (note 4) . . . . .	30,650	15,394
	<u>5,758,533</u>	<u>3,101,839</u>
	<u>13,431,488</u>	<u>9,265,574</u>
EXPENSES (note 2)		
Insurance underwriting and policy issuance expenses . . . . .	1,471,202	1,070,041
Premium taxes . . . . .	393,219	369,001
	<u>1,864,421</u>	<u>1,439,042</u>
Less: Increase (decrease) in deferred expenses . . . . .	249,008	(248,852)
	<u>1,615,413</u>	<u>1,687,894</u>
Losses on claims incurred . . . . .	848,962	257,889
Other operating expenses . . . . .	900,697	705,719
	<u>3,365,072</u>	<u>2,651,502</u>
EARNINGS BEFORE INCOME TAXES . . . . .	<u>10,066,416</u>	<u>6,614,072</u>
PROVISION FOR INCOME TAXES		
Current . . . . .	3,169,600	2,960,400
Deferred . . . . .	605,500	26,700
	<u>3,775,100</u>	<u>2,987,100</u>
EARNINGS BEFORE REALIZED INVESTMENT LOSS . . . . .	<u>6,291,316</u>	<u>3,626,972</u>
Realized loss on disposal of investments (net of income taxes applicable thereto of \$60,000; 1973 — \$Nil) (note 3) . . . . .	596,227	257,204
NET EARNINGS FOR THE YEAR . . . . .	<u>5,695,089</u>	<u>3,369,768</u>
EARNINGS PER SHARE		
Net earnings before realized investment loss . . . . .	\$1.24	\$0.93
Net earnings for the year . . . . .	\$1.13	\$0.86
Weighted daily average number of shares outstanding . . . . .	5,056,575	3,920,805



## MICC INVESTMENTS LIMITED

### CONSOLIDATED STATEMENT OF UNREALIZED LOSS ON STOCKS

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974	1973
	\$	\$
UNREALIZED LOSS (GAIN) ON STOCKS – BEGINNING OF YEAR . . . . .	916,443	(63,616)
Unrealized loss on stocks for the year . . . . .	<u>4,867,808</u>	<u>1,000,148</u>
	5,784,251	936,532
Recovery of deferred income taxes . . . . .	<u>—</u>	<u>20,089</u>
UNREALIZED LOSS ON STOCKS – END OF YEAR . . . . .	<u><u>5,784,251</u></u>	<u><u>916,443</u></u>

### CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974	1973
	\$	\$
RETAINED EARNINGS – BEGINNING OF YEAR . . . . .	7,056,850	4,304,902
Net earnings for the year . . . . .	<u>5,695,089</u>	<u>3,369,768</u>
	12,751,939	7,674,670
Expenses of rights issue . . . . .	<u>180,703</u>	<u>135,803</u>
Cash dividends . . . . .	<u>1,041,746</u>	<u>482,017</u>
	1,222,449	617,820
RETAINED EARNINGS – END OF YEAR (note 7) . . . . .	<u><u>11,529,490</u></u>	<u><u>7,056,850</u></u>

# MICC INVESTMENTS LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974 \$	1973 \$
SOURCE OF FUNDS		
Operations —		
Net earnings for the year . . . . .	5,695,089	3,369,768
Income taxes deferred . . . . .	605,500	26,700
Depreciation . . . . .	38,922	31,082
Funds generated from operations . . . . .	6,339,511	3,427,550
Increase in deferred revenue . . . . .	12,940,174	16,186,623
Common shares issued (net of expenses) . . . . .	10,982,577	12,341,254
Decrease in cash and accounts receivable . . . . .	602,721	744,608
Increase in accounts payable . . . . .	—	1,607,494
Decrease in loan to trustees under employee stock purchase plan . . . . .	15,619	—
	<u>30,880,602</u>	<u>34,307,529</u>
USE OF FUNDS		
Decrease in accounts payable . . . . .	1,304,388	—
Purchase of fixed assets . . . . .	75,316	99,431
Dividends . . . . .	1,041,746	482,017
Increase in loan to trustees under employee stock purchase plan . . . . .	—	135,908
	<u>2,421,450</u>	<u>717,356</u>
FUNDS AVAILABLE FOR INVESTMENT . . . . .	28,459,152	33,590,173
INVESTMENT FUNDS — BEGINNING OF YEAR . . . . .	63,411,689	30,821,664
	91,870,841	64,411,837
Increase in unrealized loss on stocks . . . . .	(4,867,808)	(1,000,148)
INVESTMENT FUNDS — END OF YEAR . . . . .	<u>87,003,033</u>	<u>63,411,689</u>



MICC INVESTMENTS LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1974

1. PRINCIPLES OF CONSOLIDATION
- The consolidated financial statements of MICC Investments Limited (the "company") include the accounts of its subsidiary, The Mortgage Insurance Company of Canada (MICC).
2. ACCOUNTING POLICIES
- The accounts of MICC are included herein in accordance with generally accepted accounting principles. The application of these principles is set out for the following significant items:
- Premiums
- Premiums are taken into income as earned over the terms of the related policies. Prior to 1974, the majority of policies were written for a term of fifteen years; in the year 1974, the majority of policies were written for twenty years. The rate or formula under which premiums are earned relates to the amount of risk in each year of coverage.
- Application Fees and Commission Income
- Application fees received on insurance policies written and commission income received on reinsurance premiums ceded to a reinsurer are taken into income over the same period and under the same formula as the related premiums are earned.
- Underwriting and Policy Issuance Expense and Premium Taxes
- Underwriting and policy issuance expenses and premium taxes are deferred and then amortized against premiums as the premiums are earned.
- Losses on Claims Incurred
- Loss provision is set up for each mortgage loan when the lender reports to MICC that it will be making a claim on a mortgage. A further provision is made for anticipated losses on mortgage loans which are in default for three or more months. This provision is based on past experience of MICC. On settlement of a claim, the real estate acquired is carried in the accounts at 90% of the estimated realizable value.
- Investment Income
- (a) Treasury Bills and other Short-Term Securities—Interest is recorded as income as it accrues. Realized and unrealized gains and losses are taken into income.
- (b) Bonds and Debentures—Interest is recorded as income as it accrues. The premium or discount between cost and maturity value is amortized into income over the period to maturity. A gain or loss on the sale of a bond or debenture is deferred and then amortized over the term to maturity of the security sold.
- (c) Stocks—Dividends are recorded as income on the ex-dividend date. Realized gains and losses on disposal of stocks are taken into income as a special item. Unrealized gains and losses on stocks are accounted for in a special statement (Consolidated Statement of Unrealized Loss on Stocks), the balance of which is transferred to shareholders' equity.
- Certain items in the 1973 statement of earnings have been reclassified for comparative purposes.
3. CHANGE IN ACCOUNTING POLICY
- As referred to in note 2, gains and/or losses on the sale of bonds and/or debentures have been deferred and then amortized over the term to maturity of the securities sold. In 1973 and prior financial statements, realized gains or losses on the sale of such securities have been taken into income as a special item in the year realized. The effect of this change has been to reduce 1974 earnings before realized investment loss by \$17,843 and to reduce 1974 net earnings for the year by \$94,881.
4. CORPORATE JOINT VENTURE
- The investment in the corporate joint venture is accounted for on the equity basis and consists of the following:
- |  |                |
|--|----------------|
|  | \$             |
| Demand loan (unsecured)                | 100,000        |
| 12,000 redeemable preference shares    | 120,000        |
| 20,000 common shares                   | 20,000         |
| Share of earnings to November 30, 1974 | 51,220         |
|  | <u>71,220</u>  |
|  | <u>291,220</u> |

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5. DEFERRED REVENUE

Deferred Revenue consists of the difference between deferred premiums, application fees and commission income and the amount of the deferral of underwriting and policy issuance expense and premium taxes. In prior years this was referred to as unearned net premiums.

6. CAPITAL STOCK

10,200 common shares are reserved for allotment and issue to the trustees of the employee stock purchase plan.

1,116,328 common shares were issued pursuant to a rights issue to shareholders as at July 12, 1974. The total cash consideration was \$11,163,280. Expenses of \$180,703 relating to this issue have been charged to retained earnings.

A non-assignable stock option for the purchase of 10,000 common shares is held by a director of the company, and is exercisable over a period of five years from June 6, 1973 at a price of \$16.75 per share.

7. RETAINED EARNINGS

Dividends payable by MICC are limited in 1975, under the provisions of Section 105 of the Canadian and British Insurance Companies Act, to 75% of the average statutory results of MICC for the preceding three years. In effect, these provisions reduce the amount of retained earnings of the company available for distribution in 1975 by approximately \$10,000,000.

8. CONTINGENT LIABILITY

The company has guaranteed bank advances to the corporate joint venture to a maximum of \$250,000. As at December 31, 1974, the bank advances to the corporate joint venture were \$492,000.

9. STATUTORY INFORMATION

Depreciation charged in the year amounted to \$38,922.

As required under the Canada Corporations Act, fees and other remuneration paid to directors and officers were as follows:

Number of directors of the company	18
Aggregate remuneration as directors of the company	Nil
Aggregate remuneration as directors of MICC	\$43,400
Number of officers of the company	4
Aggregate remuneration as officers of MICC	\$151,075
Number of officers of the company who are also directors of the company	3
One officer, who is also a director, receives no remuneration as an officer.	

The aggregate remuneration paid to directors and senior officers, as defined by The Securities Act of Ontario totalled \$246,440.

In addition, loans made to a director who is also an officer and to another officer, under the employee stock purchase plan totalled \$103,523 as of December 31, 1974.

10. PENSION COSTS

Included in expenses are pension costs of \$70,000 for the employer's contribution to staff pension plans. Actuarial valuations of the plans show an unfunded amount of \$14,000 which is being amortized at the rate of \$10,000 per annum.

11. FOREIGN EXCHANGE

Assets and liabilities in United States dollars have been translated at the rate prevailing on December 31, 1974. Earnings have been translated into Canadian dollars at the average rate prevailing through the year.

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# MICC INVESTMENTS LIMITED

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## AUDITORS' REPORT TO SHAREHOLDERS

We have examined the consolidated balance sheet of MICC Investments Limited and subsidiary company as at December 31, 1974 and the consolidated statements of earnings, retained earnings, unrealized loss on stocks and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in accounting for gains and losses on the sale of bonds and debentures as referred to in note 3 to the financial statements, have been applied on a basis consistent with that of the preceding year.

February 14, 1975

COOPERS & LYBRAND  
Chartered Accountants

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TRANSFER AGENT:	The Canada Trust Company
REGISTRAR:	Canada Permanent Trust Company
AUDITORS:	Coopers & Lybrand

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# THE MORTGAGE INSURANCE COMPANY OF CANADA

## PRESIDENT'S REPORT

The year 1974 was a very successful one for The Mortgage Insurance Company of Canada. While new business committed declined approximately 10% to \$1,960,000,000 from the record amount of \$2,197,000,000 in 1973, the level achieved was satisfactory considering market conditions in the last quarter of the year. Mortgage insurance in force in Canada increased from approximately \$2.2 billion at the end of 1973 to \$3.6 billion at year end.

Net new premiums written totaled \$19,515,633 compared to \$20,563,068 in 1973, a decrease of 5%. The 1973 premium figure included \$2,181,635, in premiums from the reinsurance of 95% house loans insured in the U.S.A. by the Mortgage Guaranty Insurance Corporation. This contract was terminated as to new business late in 1973. Premiums written from Canadian business in 1974 actually increased by 6% over 1973. Assets increased to \$89,409,544 from \$64,543,121 at the end of 1973 primarily as a result of the high level of new business written. During the year, 20,600 shares of capital stock were issued to our parent company MICC Investments Limited for a total cash consideration of \$10,899,000.

### *Insurance Operations*

MICC offers 7 basic mortgage insurance programs covering residential, commercial and industrial and vacation home properties. The following table compares total commitments to insure issued under each of these classes in the years 1974 and 1973.

Commitments to Insure	1974	1973
High-ratio house loans	\$1,484,783,000	\$1,792,815,000
75% house loans . . .	112,115,000	27,908,000
High-ratio apartment loans	163,008,000	256,483,000
75% apartment loans . .	7,461,000	4,576,000
High-ratio commercial and industrial loans .	107,010,000	57,540,000
75% commercial and industrial loans . .	81,449,000	51,923,000
Vacation home loans . .	3,869,000	5,820,000
TOTAL . . . . .	<u>\$1,959,695,000</u>	<u>\$2,197,065,000</u>

It is interesting to note that the insurance of high-ratio house loans still constitutes the major part of our bus-



iness—approximately 76% of commitments to insure issued last year. The average loan amount per unit for commitments on new house loans was \$32,900, while for existing houses the average was \$24,100. These figures demonstrate that private mortgage insurance is being used to finance a broad range of Canadian housing and is not reserved for high priced housing alone. Less than 4% of commitments to insure issued last year were for house loans in excess of \$50,000.

Volume of insurance of apartment loans decreased in line with the reduction in multi-family housing starts which occurred in Canada during 1974. Our commercial and industrial program was one of the highlights of the year. In large measure, the substantial increase in volume results from the activity of our regional offices as we are now able to provide much better service to both lenders and developers across the country. Our average high-ratio loan for all income properties was approxi-



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mately \$176,000 and under the 75% program, was approximately \$282,000.

Lease guarantee commitments issued in 1974 totaled \$17,902,000 of aggregate insured rent compared to \$13,524,000 in 1973, an increase of 32%. Volume of this insurance is building slowly and, with more active promotion through our regional offices, we hope to show continued growth in 1975.

Two changes affecting our insurance operations were made during the year. The maximum insurable loan for rental projects and commercial and industrial properties was increased from \$4,000,000 to \$6,000,000. During the summer, at the request of the Federal Government, MICC voluntarily introduced loan limits for high-ratio house loans that it would insure. Because of the restrictive lending policies which had been introduced by our Approved Lender clients prior to the government's request, MICC did not feel that these loan limits were necessary, but agreed to observe them. They were removed on November 19th following the Federal Government's decision announced in the Budget Speech.

A number of additions were made to our roster of Approved Lenders and Approved Correspondents. As at this date, there are 185 MICC Approved Lenders (10 chartered banks, 39 life insurance companies, 41 trust companies, 27 loan companies, 59 credit unions and caisses populaires and 9 other type institutions). In addition, there are 36 Approved Correspondents.

As announced in last year's report, two additional regional offices were opened in the spring of 1974—one in Winnipeg to service Manitoba and Saskatchewan, and one in Ottawa to service the Ottawa/Hull and eastern Ontario region. We now have seven regional offices and the field organization is giving effective service to our builder and lender clients. The initial staffing of our Construction Inspection Department, which was established in late 1973, was completed and experienced staff is now working in each of our regional offices. During the year, 10,069 inspections were carried out on properties under construction.

#### *Investments*

The past year was a period in which financial markets worldwide were subjected to a number of negative events and anticipations that resulted in concerted

downward pressure on the market value of securities. From an investment point of view, however, such trying times represent unusual opportunity in that, as market values decline, yields on securities rise.

Net after-tax investment income, expressed as a percentage of the average portfolio, increased to 5.63% in 1974 up from 4.50% in 1973. This improvement was offset, to some degree, by the fact that the market value of the securities declined to 92.0% of book value at December 31, 1974 compared to 96.7% as at December 31, 1973. Further progress in increasing the net return from the portfolio is anticipated in 1975.

During the year, MICC realized net losses of \$656,227 on securities which were sold at less than cost. In each case, funds realized from these transactions were reinvested in other securities of equal or higher quality with a higher after-tax yield. Such realized losses can be carried forward and applied to offset future realized capital gains on sale of securities.

Under guidelines established by the Investment Committee of the Board of Directors, the general composition of the portfolio changed little from 1973. Cash and debt securities totalled 54% of book value compared to 56% at the end of 1973, and common and preferred shares represented 46% of book value compared to 44% as at the end of 1973. Cash and liquid assets, however, were increased from 20.2% to 31.7% of the portfolio.

There were two significant developments during the year in the preferred share market which influenced our decisions as to amount and composition of our preferred share holdings. In 1974, more than \$450 million in new preferred share financing was completed in Canada, indicating greater acceptability and liquidity for this type of investment in the market place. The second development was the creation of a new type of term preferred stock. Early in 1974 investors were offered a preferred stock which entitled the holder to call upon the issuer for repurchase in five years and thereafter at par value. Conventional preferreds were reduced from 30.6% to 23.3% while term preferreds were increased from 0.1% to 9.3% of the portfolio.

Efforts were made during the year to continue to improve our preferred share holdings and at year end more than 94% of the preferred shares were either term

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and sinking fund preferreds, conventional preferreds with a purchase fund or convertible preferreds.

Common stock holdings were increased by \$3.3 million with emphasis being placed on high quality divi-

dend paying issues.

The following table shows the classification of the portfolio, at book value, as at December 31, 1974 and December 31, 1973:

Classification	Book Value December 31, 1974	% of Total	
		1974	1973
Cash . . . . .	\$ 400,918	0.4%	0.7%
Federal Government (under 3 years) . . . . .	23,891,935	26.2	4.2
Provincial Government (under 1 year) . . . . .	3,000,000	3.3	—
Money Market (under 1 year) . . . . .	1,649,725	1.8	15.3
Cash and Liquid Assets . . . . .	28,942,578	31.7	20.2
Federal Government (over 3 years) . . . . .	6,158,866	6.7	11.4
Cash and Readily Marketable Securities . . . . .	35,101,444	38.4	31.6
Provincial Government (over 1 year) . . . . .	7,170,408	7.9	9.8
Guaranteed Investment Certificates and Certificates of Deposit (over 1 year) . . . . .	4,850,000	5.3	5.9
Other Corporate Debt (over 1 year) . . . . .	1,995,813	2.2	8.7
Total Cash and Debt . . . . .	49,117,665	53.8	56.0
Term Preferred . . . . .	8,466,460	9.3	0.1
Conventional Preferred			
Purchase Fund . . . . .	19,497,389	21.4	27.3
Perpetual . . . . .	1,761,069	1.9	3.3
Convertible Preferred . . . . .	2,170,216	2.4	2.3
Total Preferred . . . . .	31,895,134	35.0	33.0
Common Stock . . . . .	10,232,034	11.2	11.0
Total Equity . . . . .	42,127,168	46.2	44.0
Total Assets . . . . .	\$91,244,833	100.0%	100.0%

Assets amounting to \$8,554,504, in support of U.S. re-insurance liabilities, are lodged with a U.S. trustee. These assets are included in the portfolio described above and consist entirely of debt securities, mainly U.S. government obligations.

#### Defaults and Claims

At year end, there were 486 insured high-ratio house mortgages three months or more in default, out of 122,300 insured mortgages under administration by our lenders, a default ratio of 0.39% compared to 0.29% at December 31st, 1973. In addition, 37 mortgages on in-

come properties (apartments and commercial and industrial properties) were reported in default out of approximately 4,500 mortgages insured, a default ratio of 0.83%.

Claims losses during the year totaled \$848,962 compared to \$257,889 in 1973. The 1974 loss is made up as follows, with comparable figures for 1973:

	1974	1973
U.S. Reinsurance . . . . .	\$590,152	\$237,346
Canadian Mortgage Insurance	\$239,217	\$ 16,666
Lease Guarantee Insurance . . . . .	\$ 19,593	\$ 3,877



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While losses on the reinsurance of U.S. mortgages increased substantially during the year, losses now seem to have stabilized. It should be noted that MICC ceased writing new reinsurance business in 1973 and future losses will relate to policies written prior to that date.

Although losses on Canadian business increased over 1973, our experience is considered to be exceptionally good in light of the increase in insurance in force and the downturn in the economy. The real estate shown on our balance sheet at year end represents two small apartment buildings acquired at the end of the year, and it is our intention to offer them for sale as soon as appropriate. There were two lease guarantee cases under claim at year end with MICC share of losses being approximately \$300 per month.

#### *1975 Outlook*

Canada's new housing starts dropped by 17% in 1974 to 222,123 from the record level of 268,523 in 1973. Residential building was maintained at a high level during the first few months of the year but fell off badly during the second half.

The outlook for 1975 is for another difficult year in housing. Canada's economy is in low gear and higher unemployment levels are predicted. On the positive side it appears as if there will be an adequate supply of institutional mortgage funds and we have already experienced a rather dramatic downturn in mortgage rates over the past few weeks to levels below 11%. Most predictions for new housing starts in 1975 are in the 200,000-220,000 range and this figure can be achieved, but only with a substantial increase in government initiated starts. Unfortunately, in today's circumstances, the private sector is not able to satisfy the housing needs of many of our low and middle income families. The Federal and a number of the Provincial Governments are actively working on programs to increase new starts for this group of our citizens in 1975.

The market has improved in most areas since the beginning of the year and many builders and realtors

are reporting a good improvement in sales. We have seen some easing of price levels reached last spring, when there was a strong speculative element in sales activity in some of our larger cities, but we do not anticipate any further substantial reduction. We are already noticing that the high volume of commercial and industrial business we experienced last year is continuing in the early part of 1975. We are hopeful also, that if reduced interest rates stay with us, we should see an improvement in apartment housing starts with a corresponding increase in our volume of business under this program.

The current economic climate suggests that continuous careful underwriting will be required in 1975 to assure an acceptable level of quality of business. At the same time, we feel that there will be a greater incentive for lenders to have mortgages insured. The additional underwriting process provided by MICC, plus insurance protection, will be an important factor in decisions by more lenders to make greater use of our services.

In the light of current conditions and the low estimate of new starts for 1975, it will be difficult to match new business written in 1974. However, we expect to obtain our fair share of new mortgage loans committed by our lender clients. It is probable that we will experience some increase in claims losses but because premiums are taken into income over the life of each policy issued, 1975 should be another year of satisfactory increase in profits for MICC.

#### *Staff*

In closing, I would like to thank members of our staff for their loyalty and diligence over the past year. The success achieved during 1974 is in large measure the result of their efforts.



R. T. RYAN  
President

February, 1975

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# THE MORTGAGE INSURANCE COMPANY OF CANADA

## BALANCE SHEET

AS AT DECEMBER 31, 1974

ASSETS	1974 \$	1973 \$
CASH AND ACCOUNTS RECEIVABLE		
Cash . . . . .	400,918	358,543
Premiums receivable . . . . .	400,000	1,020,000
Interest accrued and sundry receivables . . . . .	<u>403,775</u>	<u>506,275</u>
	<u>1,204,693</u>	<u>1,884,818</u>
INVESTMENTS		
Bonds, debentures and stock, at authorized values . . . . .	87,341,777	62,182,258
Mortgages . . . . .	463,074	455,345
Real estate . . . . .	<u>400,000</u>	<u>20,700</u>
	<u>88,204,851</u>	<u>62,658,303</u>
Signed on behalf of the Board		
GARDNER ENGLISH, Director		
G. D. SUTTON, Director		
	<u>89,409,544</u>	<u>64,543,121</u>



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	LIABILITIES	1974 \$	1973 \$
ACCOUNTS PAYABLE			
Due to other insurance companies . . . . .		311,232	100,608
Provision for claims . . . . .		198,399	95,167
Accounts payable and accrued liabilities . . . . .		212,703	174,896
Premium taxes payable . . . . .		367,801	359,808
Income taxes payable . . . . .		96,360	1,717,760
Due on undelivered securities . . . . .		71,250	56,902
		<u>1,257,745</u>	<u>2,505,141</u>
RESERVES			
Reserve for unearned premiums . . . . .		44,027,503	30,918,320
Additional policy reserve . . . . .		2,060,220	1,155,869
Reserve for unregistered reinsurance . . . . .		334,213	257,905
		<u>46,421,936</u>	<u>32,332,094</u>
		<u>47,679,681</u>	<u>34,837,235</u>
SHAREHOLDERS' EQUITY			
CAPITAL STOCK			
Authorized — 150,000 shares of the par value of \$100 each . . . . .			
Issued and fully paid — 108,145 shares (1973 — 87,545) . . . . .		10,814,500	8,754,500
SURPLUS . . . . .		30,915,363	20,951,386
		<u>41,729,863</u>	<u>29,705,886</u>
		<u>89,409,544</u>	<u>64,543,121</u>

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## HEAD OFFICE

Suite 1212, 401 Bay Street Toronto 1, Ontario  
Georges Carpentier – Assistant Vice-President, Chief Underwriter  
K. Antaya – Supervisor, Mortgage Insurance  
J. G. Kingston – Chief Inspector  
Clifford E. Madden – Supervisor, Lease Guarantee  
Barry A. Morrison – Investment Officer  
W. C. Thomson – Supervisor, Administration

## REGIONAL OFFICES

### HALIFAX

Suite 1700, 5151 George Street Halifax, Nova Scotia  
Sylvio Philippe – Manager

### MONTREAL

Suite 504, 4 Place Ville Marie Montreal 113, Quebec  
J. D. Boudreau – Manager  
Yvon Houlé – Assistant Manager  
A. I. MacIntyre – Business Development Officer

### OTTAWA

Suite 606, 170 Laurier Avenue West Ottawa, Ontario  
Gordon McLean – Manager

### TORONTO

Suite 507, 401 Bay Street Toronto 1, Ontario  
George Pennie – Manager  
David Stewart – Assistant Manager

### WINNIPEG

Suite 1010, 330 Portage Avenue Winnipeg, Manitoba  
E. P. Wasslen — Manager

### EDMONTON

Suite 1317, 10025 Jasper Avenue Edmonton, Alberta  
C. W. Whelan — Manager

### VANCOUVER

Suite 1401, 1177 West Hastings Street Vancouver 1, B.C.  
G. K. Bright – Manager  
R. S. Kunciak – Assistant Manager  
W. C. Lee – Business Development Officer

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# MICC INVESTMENTS LIMITED

For the six months  
ended June 30, 1974

TO THE SHAREHOLDERS:

*phenomenon*

Operations of your company for the six month period ending June 30, 1974 continued the strong tone noted in the first quarterly report. Business of the subsidiary company, The Mortgage Insurance Company of Canada, showed substantial increases in volume of commitments issued, premiums written and profits. Commitments for new mortgage insurance increased to \$1,458,058,000 for the six month period compared to \$1,165,000,000 last year. Premiums written totalled \$11,456,907 compared with premiums on Canadian business of \$7,808,663 for the same period in 1973. In 1973, premiums of \$1,797,455 were written on U.S. reinsurance business under a program which was concluded in that year. Earned premiums (premiums actually taken into income) rose to \$3,082,290, up from \$2,069,246 last year. Losses on claims were \$331,016 in the 1974 period compared with \$41,956 last year. The higher claims figure results from increased insurance in force and is within estimates of probable claims experience.

MICC Investments Limited had consolidated net earnings, before realized losses on sales of securities, for the six month period of \$2,949,422 compared with \$1,556,920 for the same period in 1973. Earnings per share, before such investment losses, were 64¢ on 4,594,752 shares outstanding compared with 45¢ for 1973 on 3,438,288 shares. (The earnings per share and shares outstanding figures for 1973 have been adjusted to reflect the stock split which occurred in late 1973.)

A rights offering was made to shareholders of record on July 5, 1974 under which they are entitled to subscribe for one new share for each four shares held at a price of \$10 per share.

In our last quarterly report, I drew attention to price increases in housing and the signs of decreased supply of mortgage money. During the quarter under review, there were some signs of flattening of house prices in several metropolitan areas in Canada. Buyers appear to have become resistant to the rapid escalation of prices of both new and used housing. Since the rate of price increase in the past year could not long be sustained, a more stable price structure will be welcomed by the public and the housing and real estate industries. Mortgage loans have become more difficult to negotiate for both borrower and lender with interest rates ranging from  $11\frac{1}{2}\%$  to  $12\%$ . Volume of new business has slowed somewhat during the past few weeks and will likely remain at current levels until mortgage money supply improves and interest rates moderate. The level of premiums written to date, plus the large backlog of new commitments already issued, assures us of a very satisfactory year in spite of current market conditions.

GARDNER ENGLISH,  
President.

July 24, 1974.



# MICC INVESTMENTS LIMITED

## AND SUBSIDIARY COMPANY

### CONSOLIDATED STATEMENT OF SOURCE AND USE OF INVESTMENT FUNDS

For the six months ended June 30, 1974  
(With comparative figures for the six months ended June 30, 1973)

	1974	1973
<b>SOURCE OF FUNDS</b>		
Operations —		
Net earnings for the period .....	\$ 2,628,689	\$ 1,556,920
Increase in unearned net premiums ....	8,374,617	7,536,872
Income taxes deferred .....	135,500	131,250
Depreciation .....	20,690	9,200
Funds generated from operations .....	11,159,496	9,234,242
Increase in accounts payable .....	—	4,395,532
Decrease in loan to Trustees under Employee Stock Purchase plan .....	8,610	—
Common Shares issued (net of expenses) ..	—	119,700
	11,168,106	13,749,474
<b>USE OF FUNDS</b>		
Increase in loans to trustee under Employee Stock Purchase plan .....	—	117,395
Increase in cash and accounts receivable ....	209,479	1,489,756
Decrease in accounts payable .....	1,428,554	—
Purchases of fixed assets .....	51,476	36,517
Dividends .....	413,528	137,501
	2,103,037	1,781,169
FUNDS AVAILABLE FOR INVESTMENT ..	9,065,069	11,968,305
INVESTMENTS — BEGINNING OF PERIOD .....	63,411,689	30,821,664
	72,476,758	42,789,969
INCREASE IN UNREALIZED LOSS ON STOCKS .....	3,026,210	166,144
INVESTMENTS — END OF PERIOD .....	\$69,450,548	\$42,623,825

# MICC INVESTMENTS LIMITED

## AND SUBSIDIARY COMPANY

### CONSOLIDATED BALANCE SHEET

	June 30	
	1974	1973
<b>ASSETS</b>		
Cash and Accounts Receivable .....	\$ 2,149,585	\$ 4,174,217
Investments .....	69,450,548	42,623,825
Other Assets .....	497,992	416,271
	<b>\$72,098,125</b>	<b>\$47,214,313</b>
<b>LIABILITIES</b>		
Accounts Payable and Bank Loans .....	\$ 1,122,107	\$ 5,338,446
Unearned Net Premiums .....	38,095,668	21,071,300
Deferred Income Taxes .....	1,284,083	1,233,133
	<b>\$40,501,858</b>	<b>\$27,642,879</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock		
Authorized —		
10,000,000 (1973 — 10,000,000)		
common shares without par value		
Issued and fully paid —		
4,594,752 (1973 — 3,445,928)		
common shares .....	\$26,266,909	\$13,909,552
Retained Earnings .....	9,272,011	5,724,321
	<b>35,538,920</b>	<b>19,633,873</b>
Unrealized Loss on Stocks .....	3,942,653	62,439
	<b>31,596,267</b>	<b>19,571,434</b>
	<b>\$72,098,125</b>	<b>\$47,214,313</b>

# CONSOLIDATED STATEMENT OF EARNINGS

For the six months ended June 30, 1974  
(With comparative figures for the six months ended June 30, 1973)

	1974	1973
<b>INCOME</b>		
Premiums written .....	\$11,456,907	\$ 9,606,118
Less: transfers to Unearned Net Premiums .....	8,374,617	7,536,872
Premiums earned .....	3,082,290	2,069,246
Application fees .....	1,038,173	864,913
Commission income .....	5,084	7,662
	4,125,547	2,941,821
Investment income		
Interest .....	1,242,840	1,087,361
Dividends .....	1,054,665	58,864
	2,297,505	1,146,225
	6,423,052	4,088,046
<b>EXPENSES</b>		
Losses on claims incurred .....	331,016	41,956
Insurance underwriting and policy issuance expenses .....	659,569	513,569
Premium taxes .....	228,981	157,065
Other operating expenses .....	438,964	377,286
	1,658,530	1,089,876
Earnings before Income Taxes .....	4,764,522	2,998,170
Provision for Income Taxes		
Current .....	1,679,600	1,310,000
Deferred .....	135,500	131,250
	1,815,100	1,441,250
Earnings before Realized Investment Loss .....	2,949,422	1,556,920
Realized Loss on disposal of investments .....	320,733	—
Net earnings for the Period .....	\$ 2,628,689	\$ 1,556,920
<b>Earnings per Share (Note)</b>		
Earnings before realized investment loss ..	64¢	45¢
Net earnings for period .....	57¢	45¢

NOTE: Earnings per share calculated on weighted monthly average number of shares outstanding.



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# MICC INVESTMENTS LIMITED

BOX 14, 401 BAY STREET, TORONTO, ONTARIO M5H 2Y4

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